



Rethinking retirement and pensions - New approaches for the 21st Century

**Ms Tran, Department of Social Insurance
Vietnam
Foreign Office Presentation, London**

January 19th 2006
Dr. Ros Altmann



Outline

- Background to pensions crisis
- Rethinking retirement
- What will we live on otherwise?
- Policy challenges
- New savings products
- Summary

Where do we begin?

- The UK Pensions System

- Current system dates back to middle of last century
- Idea was to support people for the last few years of their life
- People were happy to save for their future
- Strong retirement savings culture
- We have more retirement savings in the UK than the rest of Europe put together
- This is at risk!



Two roles for pensions

SOCIAL WELFARE:

To alleviate poverty among elderly

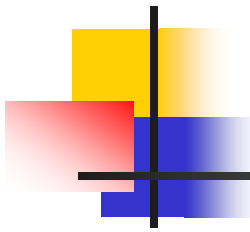
State pension?

+

SAVINGS VEHICLE:

To put money aside while working to use in later life

Private pension?



Pensions alone can't solve the pensions crisis!

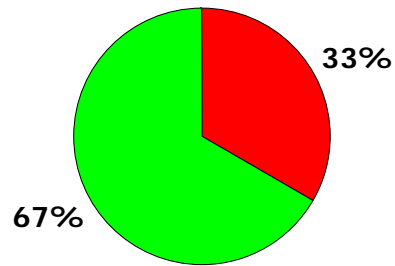
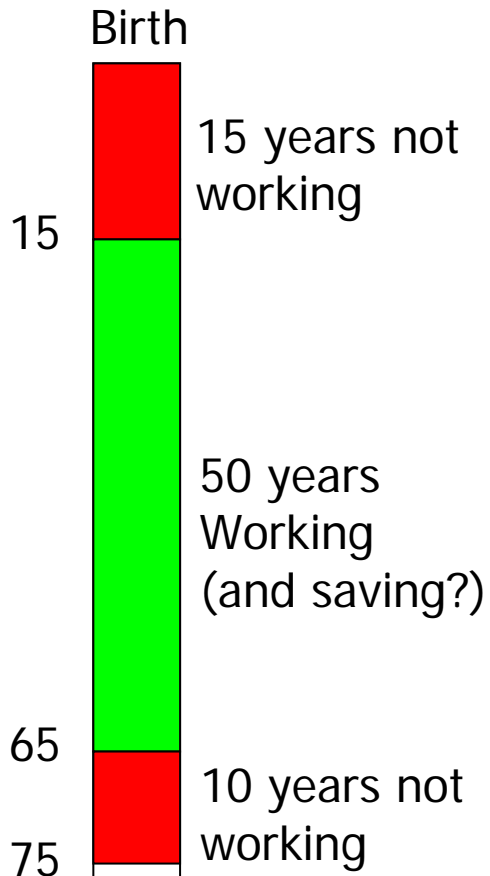
- Pensions designed to last 5 years or so
- Trying to stretch them out over 20 years or more
- Would need to save over 20% of salary
- Not possible to save enough if not earning high income
- Need to rethink role of retirement and pensions



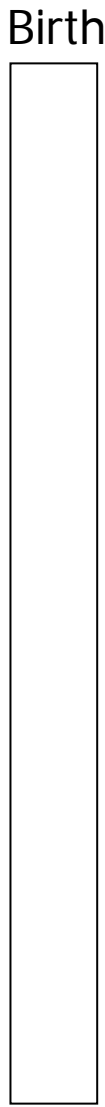
What's going on?

- Working years falling
- Saving years falling
- Retirement years rising
- Less time to save and expect savings to last longer!
- Doesn't add up
- What will all these people live on?

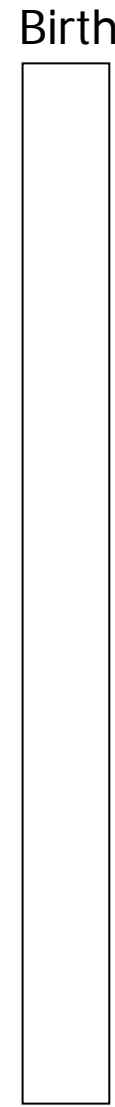
1950's



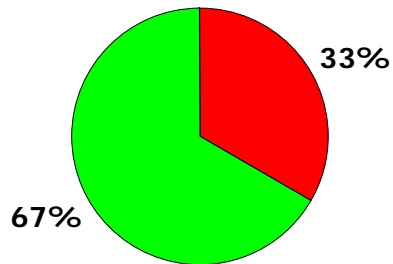
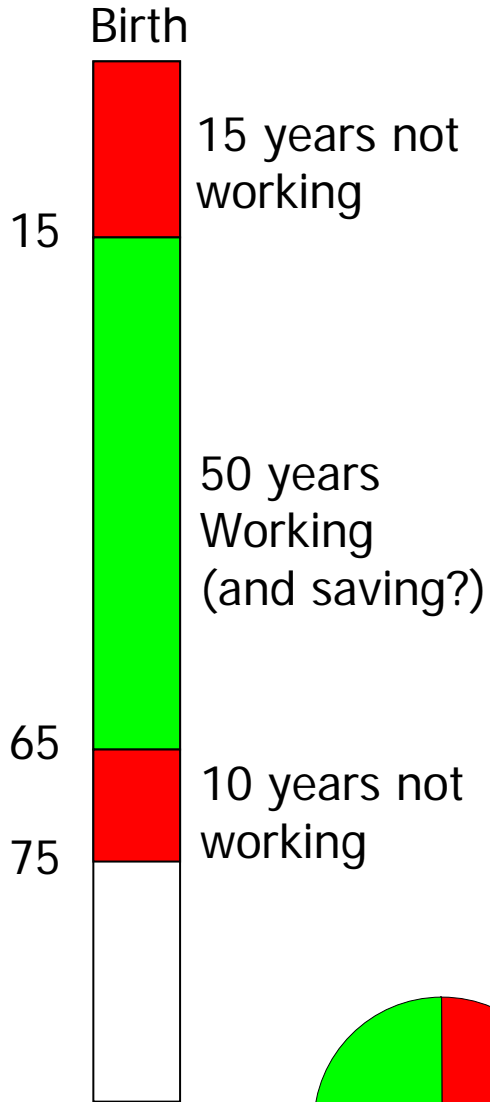
Now



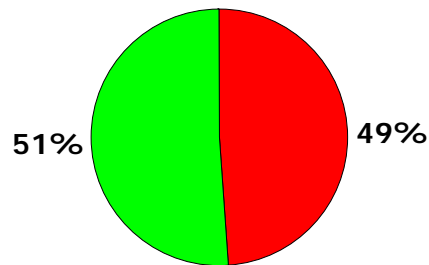
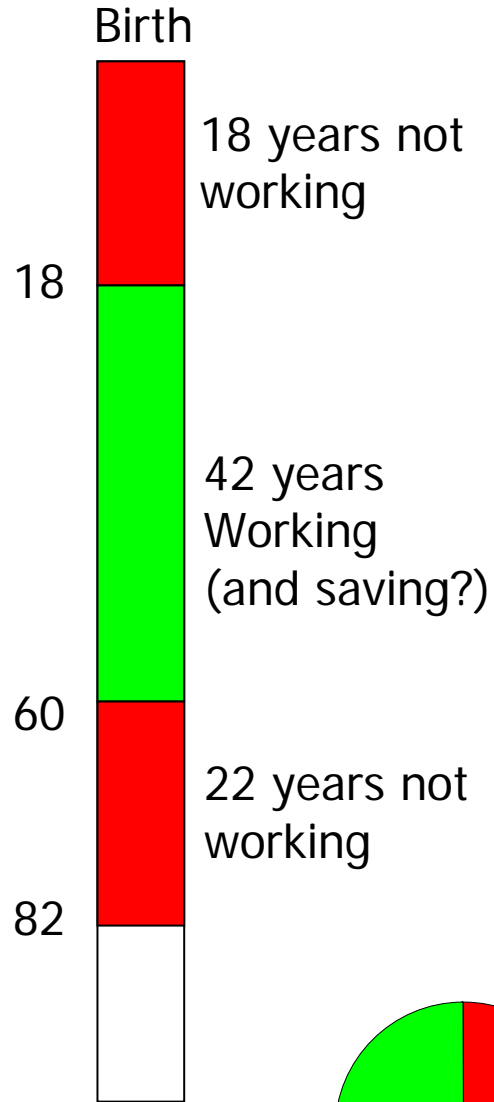
Future?



1950's



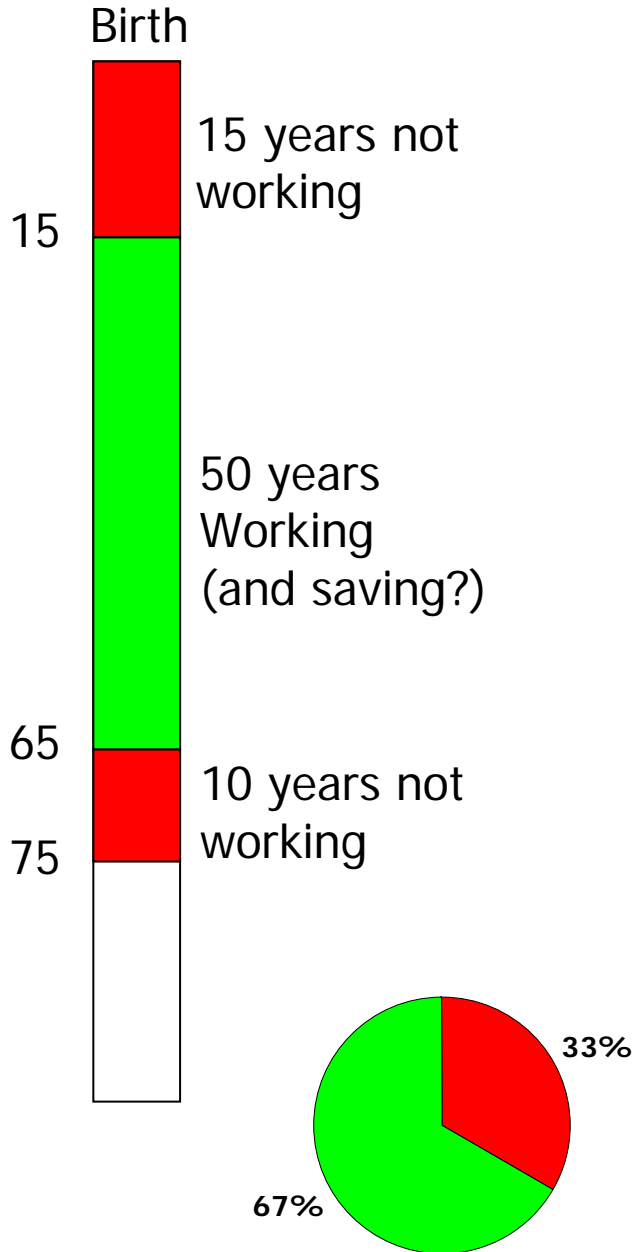
Now



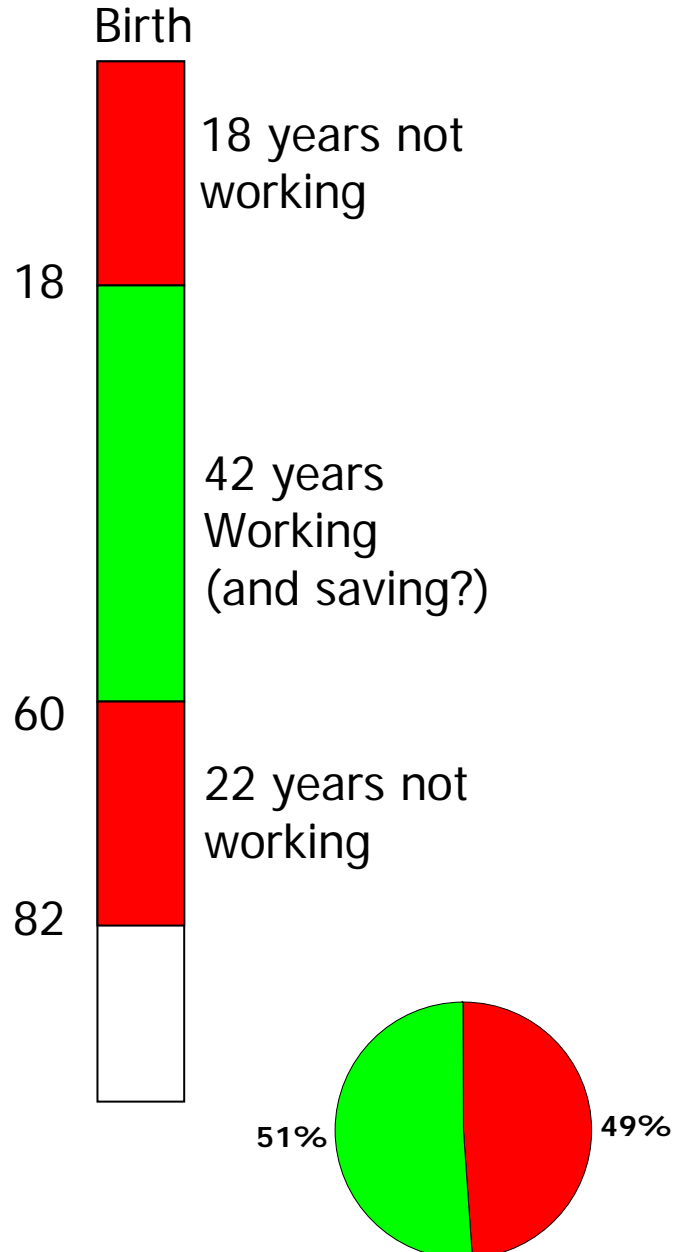
Future?



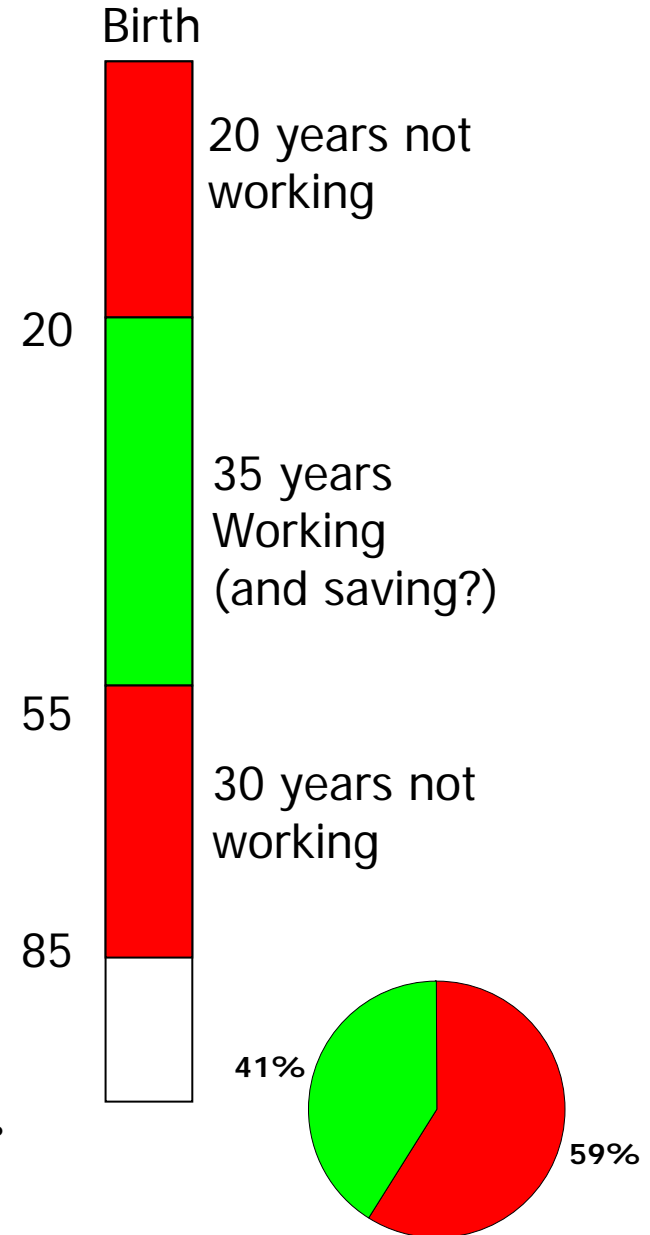
1950's



Now



Future?

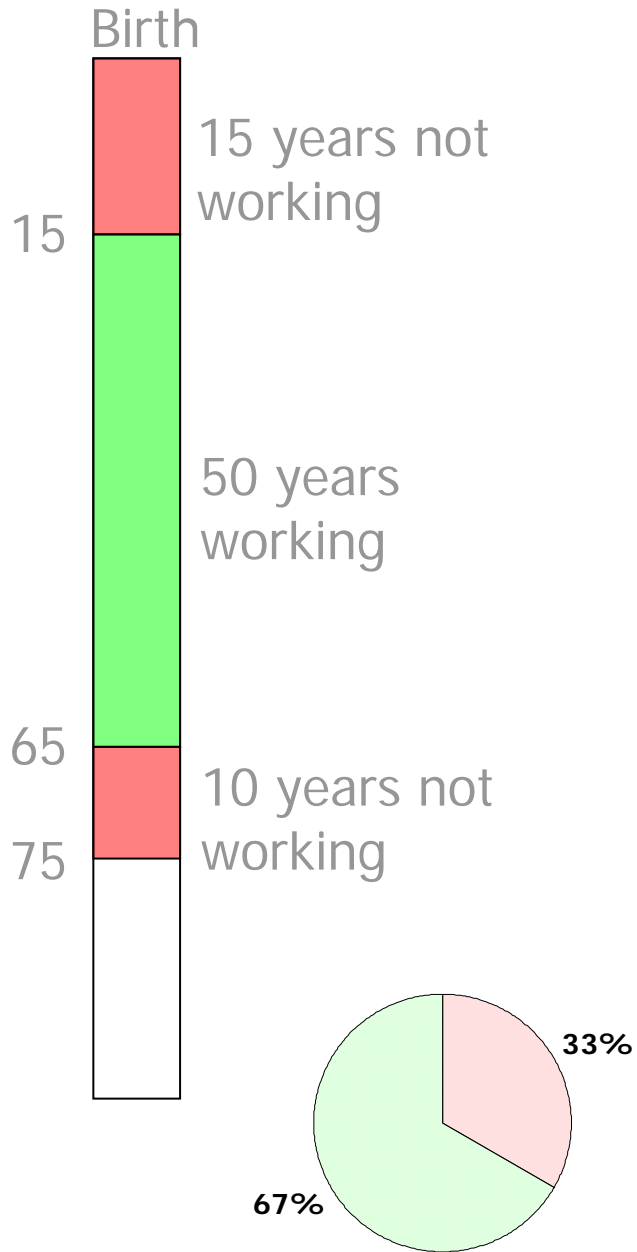




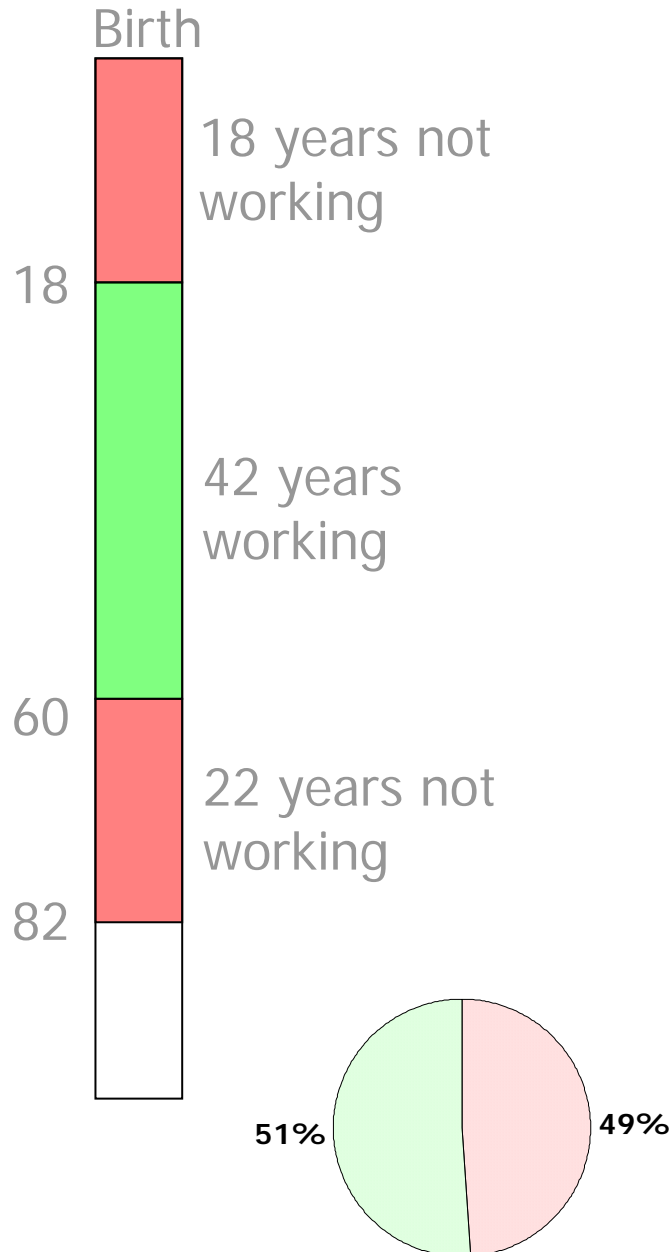
Retirement Issues

- Retirement lasting too long - never meant to be for 30 years or more
- Was convenient in 1980's/1990's due to demographics
- Waste of resources - paying people not to work
- Long-term economic decline, huge rise in poverty in an ageing population – need flexibility for demography
- Encourage later and more gradual retirement
- Retirement a 'journey' not a 'destination'

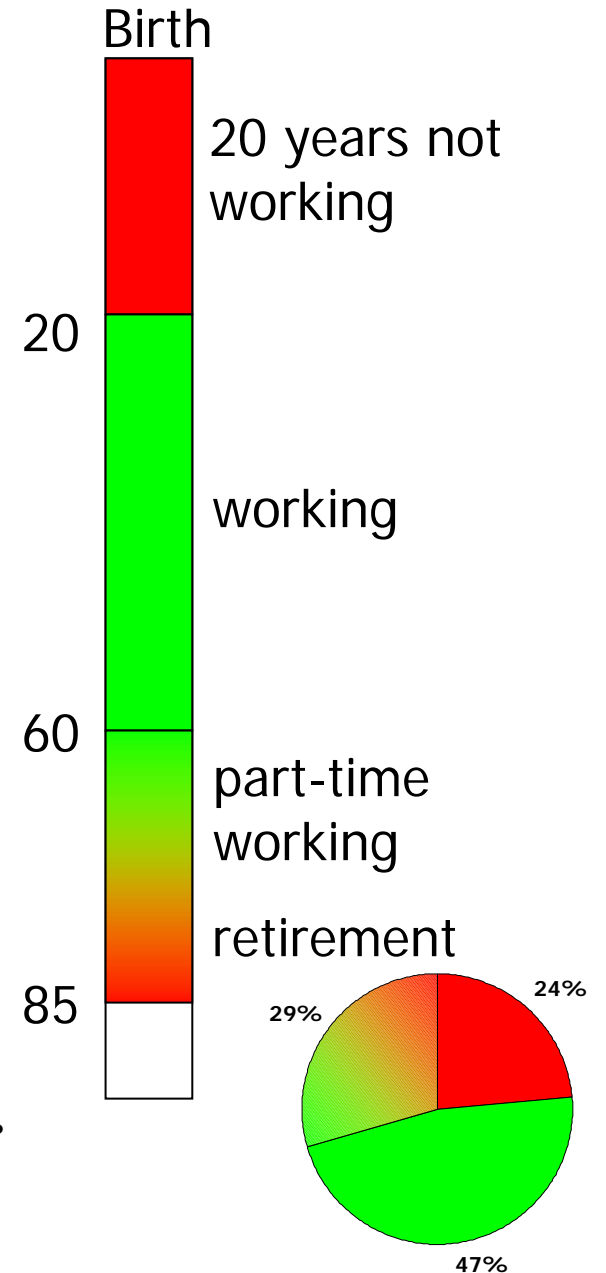
1950's



Now



Flexible Working

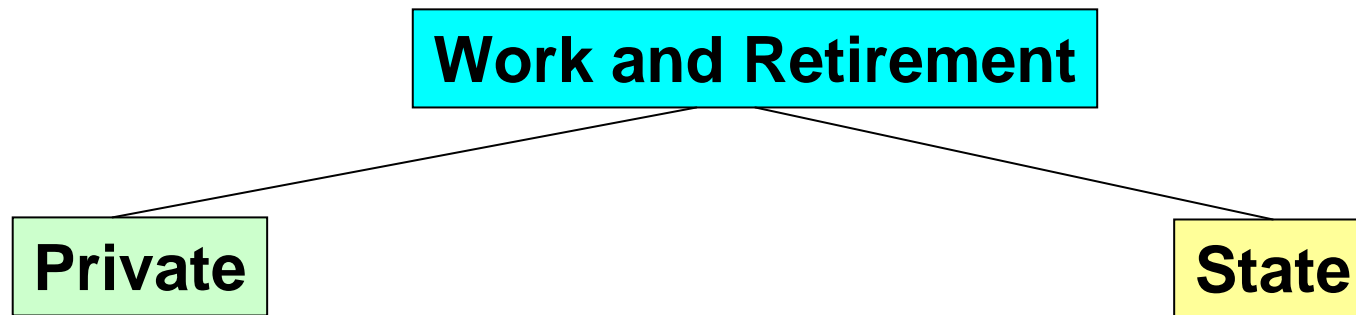




Gradual retirement

- Challenges Of Older Life – new phase of life we never had before
- Cut down gradually - part-time working, job sharing
- 2-3 days working, 4-5 days off
- More leisure and more money to enjoy the leisure
- Good for individuals and employers
- Good for the economy

Income in Later Life - Can only come from two places



Income in Later Life – theory

reduce state, raise private income

Work and Retirement

Private

Incentives

State

Employer Pension

Private Pensions/
Other Savings

Earnings

Basic Pension

Second Pension

Means Tested Benefits
(+ MIG/Pension Credit)



This is not working in practice

- Incentives not delivering more pension savings
 - All private elements of later life income falling
- State pension undermining private saving
- No new incentives
- Government not taking lead on encouraging later life employment
- Implies poverty and long term economic decline
- This is a crisis!



Policy challenges – what we need

- Ensure it is safe to save – citizen's pension
 - Get rid of means testing penalties
- Improve demand - more incentives, tax relief not enough
 - Need incentives for individuals and employers
 - 'Save more tomorrow' schemes
- Access to advice for financial planning
- Encourage part-time employment for older workers

Income in Later Life - ideal

Work and Retirement

Private

Incentives

State

Employer Pension?

Private pension /other savings

Earnings part-time work

STATE PENSION

flat-rate poverty prevention

MTB



Retirement products for new lifestyles

- State pension basic minimum – everyone wants more
- Save in different ways – not just a pension
- New products for lifetime savings
- Environment not right, products not yet right
- Lifetime Savings Accounts



Summary

- Separate state and private roles
- State take care of social welfare – no means testing
- Individuals responsible for extra if they want – either from savings or working longer (part-time when older)
- If want to earnings replacement rate, keep earning!
- Waste of resources to pay people not to work
- Re-think concepts of pensions and retirement



Radically rethinking retirement

New thinking for the 21st Century

THANK YOU FOR LISTENING!

Dr. Ros Altmann

ros@rosaltmann.com